

EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2006

EMMETSBURG MUNICIPAL UTILITIES

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Combining Statements:	
Combining Statement of Net Assets - Proprietary Funds	11
Combining Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	12
Combining Statement of Cash Flows - Proprietary Funds	13
Notes to the Financial Statements	14
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual	20
Combining Schedule of Operating Expenses	21
Schedule of Expenditures of Federal Awards	22
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings and Questioned Costs	27

EMMETSBURG MUNICIPAL UTILITIES**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Cooper	Board Member	Dec. 31, 2010
John Wright	Board Member	Dec. 31, 2011
Nick Steinkamp	Board Member	Dec. 31, 2006
Ronald Ludwig	Board Member	Dec. 31, 2007
Paul Saxton	Board Member	Dec. 31, 2009
John Bird	City Administrator/Superintendent	
Kathy Gunderson	Administrative Assistant	
John D. Brown	Attorney	

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.accountant-city.com/burdorf

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2006, and the related combining statement of revenue, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. The effect on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2006 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2007, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 20, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 22 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Emmetsburg Municipal Utilities. The combining schedule of operating expenses and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parrott And Associates, P.C.

January 17, 2007

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities financial activities for the year ended June 30, 2006. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets increased \$1,237,567 as a result of this year's operations. This represents a 12 % increase. The increase included grant proceeds of \$840,548 for the water treatment plant and the waste water treatment plant.
- The Utilities' return on total ending assets was nearly 11 %.
- The Utilities' total revenues were \$4,932,297 in 2006 compared to \$3,378,268 in 2005.
- During the year ended June 30, 2006, the Utilities' had total expenses, excluding depreciation, of \$3,599,072 compared to \$2,860,870 for June 30, 2005.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 11 and 12) provide information about the activities of the Utilities' as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities' as a Whole

The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets

Our analysis of the funds maintained by the Utilities' as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities' as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities'.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities'

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 11 and provide detailed information about the most significant funds-not the Utilities' as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The Funds maintained by the Utilities as a Whole

For the years ended June 30, 2006 and 2005, net assets changed as follows:

Summary of Operations and Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Net operating revenues	\$ 4,029,116	3,378,268
Net operating expenses	<u>3,516,651</u>	<u>3,102,927</u>
Net operating Income	512,465	275,341
Non-operating revenue	820,760	137,159
Transfers to primary government	<u>(95,658)</u>	<u>(126,881)</u>
Net increase in net assets	<u>\$ 1,237,567</u>	<u>285,619</u>

Continued on the next page

Net Assets

	2006	2005
Assets:		
Current and other assets	\$ 4,525,946	3,500,143
Capital assets	<u>10,539,432</u>	<u>7,386,203</u>
Total assets	<u>\$ 15,065,378</u>	<u>10,886,346</u>
Liabilities:		
Current liabilities	519,577	290,654
Non-current liabilities	<u>3,491,666</u>	<u>779,124</u>
Total liabilities	4,011,243	1,069,778
Net assets:		
Invested in capital assets (net of debt)	6,943,701	6,597,956
Unreserved	<u>4,110,434</u>	<u>3,218,612</u>
Total liabilities and net assets	<u>\$ 15,065,378</u>	<u>10,886,346</u>

Revenues

	2006	2005
Operating:		
Residential	\$ 1,806,399	1,466,786
Commercial	1,378,400	1,162,802
Public authority	298,801	233,093
Customer fees	440,544	455,980
Interfund services provided	53,391	37,176
Penalties	5,412	2,932
Other	<u>46,169</u>	<u>19,499</u>
Total operating	4,029,116	3,378,268
Non-operating revenues:		
Interest income	62,633	50,062
Grant proceeds	<u>840,548</u>	<u>121,769</u>
Total non-operating revenues	<u>903,181</u>	<u>171,831</u>
Total revenues	<u>\$ 4,932,297</u>	<u>3,550,099</u>

For the funds maintained by the Utilities', total revenues for June 30, 2006 increased by \$1,382,198 from total revenues for the year ended June 30, 2005.

The increase in revenue was primarily due to increase in natural gas billings and grant proceeds. The average cost paid for natural gas by the Utilities' for the year ended June 30, 2006 was \$9.80 per MCF compared to \$7.18 per MCF for the year ended June 30, 2005. The additional cost was past on the customer. In addition to the increased billings of natural gas, the Utilities received grant proceeds of \$840,548 for the water treatment

plant and well replacements and for the sewer outfall improvements as compared to \$121,769 received for the year ended June 30, 2005 for the sewer outfall improvements as discussed in Note 9 to the financial statements.

Expenses		2006	2005
Operating:			
Personal services	\$	368,573	364,724
Contractual		223,818	215,109
Materials, supplies and maintenance		2,480,331	2,081,984
Utilities		58,247	55,304
Depreciation		284,464	276,729
Uncollected accounts		5,112	7,060
Interfund services used		63,542	55,077
Other		32,564	46,940
Total operating		3,516,651	3,102,927
Non-operating expenses:			
Interest expense		82,421	22,013
Net loss on disposal of capital assets		0	12,659
Total non-operating expenses		82,421	34,672
Total expense	\$	<u>3,599,072</u>	<u>3,137,599</u>

The total expenses increased by \$461,473 from the prior year. This resulted primarily from higher cost of natural gas purchased as discussed above in revenues. The total increase in cost of natural gas purchased over the prior year was \$399,380.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Gas Department:				
Land	\$ 1,039	0	0	1,039
Structures & plant	333,319	0	0	333,319
Distribution system	1,100,919	53,173	0	1,154,092
Equipment, meters & mains	767,315	27,304	0	794,619
Total asset costs	2,202,592	80,477	0	2,283,069
Less accumulated depreciation	(1,379,690)	(55,032)	0	(1,434,722)
Gas Department assets, net	<u>\$ 822,902</u>	<u>25,445</u>	<u>0</u>	<u>848,347</u>
Water Department:				
Land	\$ 67,067	0	0	67,067
Structures & plant	517,471	0	0	517,471
Distribution system	1,889,404	0	0	1,889,404
Equipment, meters & mains	969,061	17,958	0	987,019
Construction in progress	192,977	3,012,394	0	3,205,371
Total asset costs	3,635,980	3,030,352	0	6,666,332
Less accumulated depreciation	(1,532,528)	(78,157)	0	(1,610,685)
Water Department assets, net	<u>\$ 2,103,452</u>	<u>2,952,195</u>	<u>2,952,195</u>	<u>5,055,647</u>
Sanitation Department:				
Land	\$ 84,542	0	0	84,542
Structures & plant	4,321,950	26,939	0	4,348,889
Distribution system	1,399,559	12,424	0	1,411,983
Equipment, meters & mains	535,653	6,779	0	542,432
Construction in progress	726,792	280,692	0	1,007,484
Total asset costs	7,068,496	326,834	0	7,395,330
Less accumulated depreciation	(2,608,617)	(151,275)	0	(2,759,892)
Sanitation Department assets, net	<u>\$ 4,459,879</u>	<u>175,559</u>	<u>0</u>	<u>4,635,438</u>

Continued on the next page

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Gas Department:				
Land	\$ 1,039	0	0	1,039
Structures & plant	387,845	0	54,526	333,319
Distribution system	1,075,348	25,571	0	1,100,919
Equipment, meters & mains	752,466	14,849	0	767,315
Total asset costs	2,216,698	40,420	54,526	2,202,592
Less accumulated depreciation	(1,357,859)	(63,699)	(41,868)	(1,379,690)
Gas Department assets, net	<u>\$ 858,839</u>	<u>(23,279)</u>	<u>12,658</u>	<u>822,902</u>
Water Department:				
Land	\$ 67,067	0	0	67,067
Structures & plant	517,471	0	0	517,471
Distribution system	1,742,933	146,471	0	1,889,404
Equipment, meters & mains	961,085	7,976	0	969,061
Construction in progress	31,721	192,977	31,721	192,977
Total asset costs	3,320,277	347,424	31,721	3,635,980
Less accumulated depreciation	(1,460,275)	(72,253)	0	(1,532,528)
Water Department assets, net	<u>\$ 1,860,002</u>	<u>275,171</u>	<u>31,721</u>	<u>2,103,452</u>
Sanitation Department:				
Land	\$ 84,542	0	0	84,542
Structures & plant	4,321,950	0	0	4,321,950
Distribution system	1,312,300	87,259	0	1,399,559
Equipment, meters & mains	528,393	7,260	0	535,653
Construction in progress	49,390	764,630	87,228	726,792
Total asset costs	6,296,575	859,149	87,228	7,068,496
Less accumulated depreciation	(2,467,840)	(140,777)	0	(2,608,617)
Sanitation Department assets, net	<u>\$ 3,828,735</u>	<u>718,372</u>	<u>87,228</u>	<u>4,459,879</u>

Depreciation expense for each department is found on page 12.

Debt

Debt increased during the year ended June 30, 2006 due to new loans for the water treatment plant and well replacement and the sewer outfall improvement projects. The water department's and sanitation department's net debt increased by \$2,635,731 and \$171,753, respectively, during the year ended June 30, 2006.

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities' in setting its fiscal 2007 budget. Due to the Utilities' large concentration of residential customers, normally weather impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The Utilities' fiscal 2007 budget has increased over fiscal 2006, due to the uncertainty of the natural gas market.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Net Assets
Proprietary Funds
June 30, 2006

Assets	Gas Department	Water Department	Sanitation Department	Total 2006
Current assets:				
Cash and cash equivalents	\$ 1,027,107	524,601	274,818	1,826,526
Certificates of deposit	0	0	87,778	87,778
Accounts receivable	213,656	0	35,004	248,660
Current portion of notes receivable	2,498	0	0	2,498
Other receivables	138	0	40,000	40,138
Accrued billing	51,174	30,337	23,563	105,074
Accrued interest receivable	818	1,177	267	2,262
Interfund receivable	103,571	0	38,231	141,802
Prepaid expenses	5,710	12,517	11,233	29,460
Total current assets	1,404,672	568,632	510,894	2,484,198
Noncurrent assets:				
Notes receivable (net of current portion above)	43,607	0	0	43,607
Restricted assets - cash and cash equivalents	42,865	10,070	0	52,935
Assets whose use is limited:				
Cash and cash equivalents	393,607	320,249	126,178	840,034
Certificates of deposit	599,750	460,000	12,222	1,071,972
	993,357	780,249	138,400	1,912,006
Loan fees (net of \$300 amortization)	0	27,500	5,700	33,200
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	333,319	517,471	4,348,889	5,199,679
Distribution system	1,154,092	1,889,404	1,411,983	4,455,479
Equipment, meters and mains	794,619	987,019	542,432	2,324,070
Construction in progress	0	3,205,371	1,007,484	4,212,855
	2,283,069	6,666,332	7,395,330	16,344,731
Less: Accumulated depreciation	(1,434,722)	(1,610,685)	(2,759,892)	(5,805,299)
Net capital assets	848,347	5,055,647	4,635,438	10,539,432
Total assets	\$ 3,332,848	6,442,098	5,290,432	15,065,378

See notes to the financial statements.

Liabilities and Net Assets	Gas Department	Water Department	Sanitation Department	Total 2006
Current liabilities:				
Accounts payable	\$ 43,894	42,253	42,501	128,648
Other liabilities payable	21,554	0	0	21,554
Current portion of long-term debt	0	102,000	55,000	157,000
Accrued vacation pay	4,419	4,487	2,216	11,122
Accrued interest payable	0	6,495	2,758	9,253
Interfund payable	0	141,802	0	141,802
Due to Primary Government	33,816	8,191	8,191	50,198
Total current liabilities	103,683	305,228	110,666	519,577
Noncurrent liabilities:				
Customer deposits	42,865	10,070	0	52,935
Long-term debt (net of current portion above)	0	2,533,731	905,000	3,438,731
Total liabilities	146,548	2,849,029	1,015,666	4,011,243
Net Assets:				
Investment in capital assets (net of related debt)	848,347	2,419,916	3,675,438	6,943,701
Unrestricted	2,337,953	1,173,153	599,328	4,110,434
Total net assets	3,186,300	3,593,069	4,274,766	11,054,135
Total liabilities and net assets	\$ 3,332,848	6,442,098	5,290,432	15,065,378

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Business-type Activities			Total 2006
	Gas Department	Water Department	Sanitation Department	
Operating revenues:				
Residential sales	\$ 1,442,649	165,527	198,223	1,806,399
Commercial sales	1,107,505	164,263	106,632	1,378,400
Public authority sales	265,313	17,885	15,603	298,801
Customer fees	138,600	146,016	155,928	440,544
Interfund services provided	51,431	889	1,071	53,391
Penalties	5,412	0	0	5,412
Other	14,478	21,067	10,624	46,169
Total operating revenues	3,025,388	515,647	488,081	4,029,116
Operating expenses:				
Personal services	126,146	124,735	117,692	368,573
Contractual	84,078	66,815	72,925	223,818
Materials, supplies and maintenance	2,361,404	52,360	66,567	2,480,331
Utilities	4,074	23,054	31,119	58,247
Depreciation	55,032	78,157	151,275	284,464
Uncollectible accounts	5,093	0	19	5,112
Interfund services used	9,333	17,413	36,796	63,542
Other	32,564	0	0	32,564
Total operating expenses	2,677,724	362,534	476,393	3,516,651
Operating Income	347,664	153,113	11,688	512,465
Non-operating revenues and (expenses):				
Interest income	34,261	21,130	7,242	62,633
Interest expense	(1,122)	(46,644)	(34,655)	(82,421)
Grant proceeds	0	549,619	290,929	840,548
Net loss on disposal of capital assets	0	0	0	0
Total non-operating revenues (expenses)	33,139	524,105	263,516	820,760
Income before transfers	380,803	677,218	275,204	1,333,225
Transfers to Primary Government	(81,658)	(7,000)	(7,000)	(95,658)
Transfers in (out) Proprietary Funds	(35,000)	0	35,000	0
Change in net assets	264,145	670,218	303,204	1,237,567
Net assets at beginning of year	2,922,155	2,922,851	3,971,562	9,816,568
Net assets at end of year	\$ 3,186,300	3,593,069	4,274,766	11,054,135

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Gas Department	Water Department	Sanitation Department	Total 2006
Cash flows from operating activities:				
Cash received from customers	\$ 2,926,998	493,584	434,470	3,855,052
Cash payments to suppliers for goods and services	(2,483,518)	(124,371)	(148,637)	(2,756,526)
Cash payments to employees for services	(125,711)	(123,837)	(117,895)	(367,443)
Cash received for interfund services provided	51,431	889	1,071	53,391
Cash paid for interfund services used	(9,333)	(17,413)	(36,796)	(63,542)
Other Income	14,478	21,067	10,624	46,169
Other expense	(32,564)	0	0	(32,564)
Net cash provided by operating activities	341,781	249,919	142,837	734,537
Cash flows from noncapital financing activities:				
Cash from or to Primary Government funds	20,813	(4,812)	(4,812)	11,189
Cash from or for interfund transactions	(31,864)	144,415	(94,551)	18,000
Collection of loan receivable - Primary Government	52,000	0	0	52,000
Interest on loan receivable - Primary Government	901	0	0	901
Transfers from or to Primary Government funds	(81,658)	(7,000)	(7,000)	(95,658)
Transfers from or to interfund services	(35,000)	0	35,000	0
Net cash provided (used) by noncapital financing activities	(74,808)	132,603	(71,363)	(13,568)
Cash flows from capital and related financing activities:				
Loan proceeds	0	2,635,731	216,753	2,852,484
Loan payments	0	0	(45,000)	(45,000)
Grant proceeds	0	549,619	290,929	840,548
Interest paid	(304)	(67,649)	(33,721)	(101,674)
Acquisition and construction of capital assets	(80,477)	(3,030,352)	(326,864)	(3,437,693)
Net cash provided (used) for capital and related financing activities	(80,781)	87,349	102,097	108,665
Cash flows from investing activities:				
Cash from or to Investments in certificates of deposit	100,000	80,000	0	180,000
Interest on cash investments and notes receivable	33,437	20,904	7,125	61,466
Collection of notes receivable from others	2,376	0	0	2,376
Net cash provided (used) by investing activities	135,813	100,904	7,125	243,842
Net Increase (decrease) in cash and cash equivalents	322,005	570,775	180,696	1,073,476
Cash and cash equivalents, beginning of year	1,141,574	284,145	220,300	1,646,019
Cash and cash equivalents, end of year	\$ 1,463,579	854,920	400,996	2,719,495
Reconciliation of operating income to net cash provided by operating activities:				
Operating Income	\$ 347,664	153,113	11,688	512,465
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	55,032	78,157	151,275	284,464
Changes in assets and liabilities:				
(Increase) decrease in accounts and other receivables	(18,441)	0	(40,087)	(58,528)
(Increase) decrease in accrued billing	(21,405)	(4,707)	(1,810)	(27,922)
(Increase) decrease in prepaid expenses	551	(1,406)	(42)	(897)
Increase (decrease) in accounts payable	(48,014)	21,332	22,016	(4,666)
Increase (decrease) in other liabilities	13,501	(2,068)	0	11,433
Increase (decrease) in accrued vacation pay	435	898	(203)	1,130
Increase (decrease) in customer deposits	12,458	4,600	0	17,058
Net cash provided by operating activities	\$ 341,781	249,919	142,837	734,537

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utility's funds. Deposits are stated at cost.

The carrying amount of the Utility's deposits at June 30, 2006 was \$3,879,245 and the bank balance was \$3,893,747. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, has elected no valuation allowance at June 30, 2006. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities reported net assets are segregated into Investment in capital assets (net of related debt) and Unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to

construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

E. Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$17,356, \$17,721, and \$18,009 respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

H. Budgets

The Emmetsburg Municipal Utilities follows these procedures in establishing their annual budget:

1. The City Administrator/Superintendent and Administrative Assistant submit to the Utility Board of Trustees and City Council a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them.

2. Public hearings are conducted at the City Hall to obtain taxpayer comments.
3. The budget is filed by March 15 of the commencing year along with the City of Emmetsburg budget.
4. The City Administrator/Superintendent, with the approval of the Board of Trustees and City Council in certain circumstances, is authorized to transfer budgeted amounts between departments within any fund or program; however, revisions that alter the total expenses of any class of expenses or expenditures require a formal budget amendment.
5. All appropriations lapse at year end.

2. **Note Receivable**

On June 6, 2002, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$50,000, bearing interest at five percent. The Utilities advanced the company \$26,302 as of June 30, 2002 and the remainder as of June 30, 2003. The current balance at June 30, 2006 is \$46,105 and becomes due in monthly principal and interest payments of \$395, with final balloon payment of \$42,963 payable October 15, 2007.

3. **Assets Whose Use is Limited**

The composition of assets whose use is limited at June 30, 2006 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
By Board for Capital Improvements and Replacement			
Cash in bank	\$ 251,503	161,220	75,140
Certificates of deposit	689,251	572,609	12,222
By Board for Medical Reimbursement:			
Cash in bank	39,733	4,138	4,137
By Board for Industrial Development:			
Cash in bank	870	28,282	32,901
By Board for Housing Development:			
Cash in bank	2,500	14,000	14,000
Certificates of deposit	9,500	0	0
	<u>\$ 993,357</u>	<u>780,249</u>	<u>138,400</u>

4. **Restricted Assets – Cash and Cash Equivalents**

Restricted assets are comprised of cash in bank and certificates of deposit that can be used only to repay customer deposits.

5. Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
Land	\$ 152,648	0	0	152,648
Structures & plant	5,172,740	26,939	0	5,199,679
Distribution system	4,389,882	65,597	0	4,455,479
Equipment, meters & mains	2,272,029	52,041	0	2,324,070
Construction in progress	919,739	3,293,116	0	4,212,855
Total	\$ 12,907,038	3,437,693	0	16,344,731

6. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$102,000) to June 1, 2026, and interest at 3.00%. At June 30, 2006, the loan balance totaled \$2,635,731, with an unadvanced commitment of \$114,269 available for advance.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of \$20,000 – 35,000 (currently \$25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2006, the loan balance totaled \$578,000, with an unadvanced commitment of \$2,000 available for advance.

\$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.92%. At June 30, 2006, the loan balance totaled \$132,000.

\$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 4.23%. At June 30, 2006, the loan balance totaled \$250,000.

Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 157,000	115,649	272,649
2008	160,000	110,601	270,601
2009	164,000	105,463	269,463
2010	167,000	100,205	267,205
2011	170,000	94,857	264,857
2012-2025	<u>2,777,731</u>	<u>715,646</u>	<u>3,493,377</u>
	<u>\$3,595,731</u>	<u>1,242,421</u>	<u>4,838,152</u>

7. Employee Benefits - Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$1,500 deductible per individual and a \$3,000 per family co-insurance clause. The Utilities then self-insures \$1,250 of the \$1,500 deductible.

8. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The

Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. Construction in Progress

The Utilities has entered into water treatment plant and well replacement contracts in the water department. The cost incurred through June 30, 2006 includes engineering and related testing fees. The Utilities, as a subrecipient of the City of Emmetsburg, has been awarded a \$600,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which \$549,619 in grant proceeds were received in fiscal 2006. This leaves an estimated cost of \$2,842,533 that will be paid with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

Water Department

Cost incurred through June 30, 2006	\$ 3,205,371
Estimated cost to complete	<u>237,162</u>
Total estimated cost	\$ <u>3,442,533</u>

The Utilities has also entered into sewer outfall improvement contracts in the sanitation department. The cost incurred through June 30, 2006 includes engineering and related testing fees. The Utilities, as a subrecipient of the City of Emmetsburg, has been awarded a \$451,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which \$290,929 in grant proceeds were received in fiscal 2006. This leaves an estimated cost of \$649,537 to be paid for with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

Sanitation Department

Cost incurred through June 30, 2006	\$ 1,007,484
Estimated Cost to complete	<u>93,053</u>
Total estimated cost	\$ <u>1,100,537</u>

10. Related Party Transactions

The component unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2006, the component unit remitted \$267,608 in billings to the primary government.

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Required Supplementary Information
Year Ended June 30, 2006

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Operating revenues	\$ 4,029,116	3,258,015	3,258,015	771,101
Operating expenses	3,516,651	3,013,641	3,852,241	(335,590)
Operating Income	512,465	244,374	(594,226)	1,106,691
Non-operating revenues and (expenses)	820,760	599,524	599,524	221,236
Transfers to Primary Government	(95,658)	(73,658)	(73,658)	(22,000)
Net assets at beginning of year	9,816,568	9,816,568	9,816,568	0
Net assets at end of year	\$ 11,054,135	10,586,808	9,748,208	1,305,927

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$838,600. This budget amendment is reflected in the final budget amounts.

See Independent Auditors' Report.

EMMETSBURG MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Schedule of Operating Expenses
Year Ended June 30, 2006

21

	Gas Department	Water Department	Sanitation Department	Total 2006
Personal services:				
Trustee fees	\$ 1,500	1,500	1,500	4,500
Administrative salaries	12,576	14,141	12,712	39,429
Office salaries	15,531	15,362	15,362	46,255
Plant labor	70,552	69,510	67,679	207,741
Extra labor	2,348	2,379	2,348	7,075
Overtime	9,029	7,659	5,775	22,463
IPERS	6,179	5,996	5,181	17,356
Payroll taxes	8,431	8,188	7,135	23,754
Total personal services	126,146	124,735	117,692	368,573
Contractual:				
Advertising	2,129	2,040	2,985	7,154
Professional	6,208	6,701	7,787	20,696
Insurance	8,165	15,283	14,935	38,383
Health insurance and risk fund	33,551	37,094	28,492	99,137
Analytical testing and contract	0	1,632	15,329	16,961
Drug testing	335	0	0	335
Defense group expense	4,642	0	0	4,642
Regulatory commission	16,419	2,332	2,592	21,343
Conference and education	2,119	1,733	805	4,657
Regulation and compliance	3,010	0	0	3,010
Energy efficiency plan	7,339	0	0	7,339
Collection expense	161	0	0	161
Total contractual	84,078	66,815	72,925	223,818
Materials, supplies and maintenance:				
Cost of natural gas purchased	2,316,959	0	0	2,316,959
Maintenance supplies	2,925	3,153	7,797	13,875
Automotive supplies and expense	4,522	3,249	4,386	12,157
Other equipment supplies and expense	1,680	436	11,312	13,428
Computer maintenance and supplies	3,559	3,573	3,545	10,677
Chemicals	0	11,715	789	12,504
Maintenance and materials - mains	19,934	14,556	0	34,490
Treatment plant maintenance	0	3,717	0	3,717
Water well maintenance	0	3,387	0	3,387
Collection system maintenance	0	0	5,167	5,167
Lift station maintenance	0	0	3,696	3,696
Office supplies	5,923	7,093	7,184	20,200
Uniforms	976	1,125	495	2,596
Community housing expense	0	0	16,085	16,085
Maintenance buildings and grounds	583	356	6,111	7,050
Miscellaneous	4,343	0	0	4,343
Total materials, supplies and maintenance	2,361,404	52,360	66,567	2,480,331
Utilities:				
Lift station power	0	0	4,595	4,595
Telephone	2,556	2,594	2,594	7,744
Electric	1,518	20,460	23,930	45,908
Total utilities	4,074	23,054	31,119	58,247
Depreciation	55,032	78,157	151,275	284,464
Uncollectible accounts	5,093	0	19	5,112
Interfund services used:				
Administrative fees - Primary Government	7,900	7,900	7,900	23,700
Utility fees to Emmetsburg Municipal Utilities	1,433	9,513	28,896	39,842
Total interfund services used	9,333	17,413	36,796	63,542
Other expenses:				
Electrification study	27,564	0	0	27,564
Donations	5,000	0	0	5,000
Total other expenses	32,564	0	0	32,564
Total operating expenses	\$ 2,677,724	362,534	476,393	3,516,651
See Independent Auditors' Report.				

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Community Development Block Grant/StateProgram:			
Pass-through programs from:			
Iowa Department of Economic Development:			
Community Development Block Grant-Water Treatment Plant	14.228	05-WS-038	\$ 573,999
Community Development Block Grant-Sanitary Sewer Improvement	14.228	03-WS-099	26,060
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Funds		FS-74-05-	
Federal funds included in Loan balance at June 30, 2006	66.468	DWSRF-012	<u>1,485,799</u>
Total expenditures of federal awards			<u>\$ 2,085,858</u>

Note A. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Emmetsburg Municipal Utilities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements

See Independent Auditors' Report.

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.accountant-city.com/burdorf

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2006, and have issued our reports thereon dated January 17, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying schedule of findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect

on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the Board, management, authority members and federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parrott And Associates, P.C.

January 17, 2007

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
Patrick J. Parrott, CPA
www.accountant-city.com/burdorf

3131 Main, P.O. Box 359
Emmetsburg, Iowa 50536
Phone: 712-852-3347
Fax: 712-852-3348

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

Compliance

We have audited the compliance of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. Emmetsburg Municipal Utilities' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of Emmetsburg Municipal Utilities' management. Our responsibility is to express an opinion on Emmetsburg Municipal Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Emmetsburg Municipal Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Emmetsburg Municipal Utilities' compliance with those requirements.

In our opinion, Emmetsburg Municipal Utilities' complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of Emmetsburg Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered

Emmetsburg Municipal Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the Board, management, authority members and federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

Burdorf, Parrott And Associates, P.C.

January 17, 2007

EMMETSBURG MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results

- (a) Qualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
- (g) The programs tested as major programs included Community Development Block Grant/State's Program CFDA Number 14.228 and the Drinking Water State Revolving Funds CFDA Number 66.468.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Emmetsburg Municipal Utilities did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

- 06-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities component financial statements. We noted that one individual at the Utilities office has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that the limited number of office employees, segregation of duties is difficult. However, the Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the Board of Trustees along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs-Major Federal Award Programs Audit

There were no material matters to report.

Part IV: Other Findings Related to Required Statutory Reporting

06-II-A Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.

06-II-B Certified Budget - Expenditures during the year ended June 30, 2006 did not exceed the budget for the year. See page 23.

06-II-C Questionable Expenditures - There were no questionable expenditures that fell outside its established policy on such costs.

06-II-D Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.

06-II-E Business Transactions - Business transactions between the Utilities and Utilities officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Description of Transaction</u>	<u>Amount</u>
Paul Saxton, Trustee Saxton's Greenhouse	Purchase of plants, flowers, and mulch	\$106
Nick Steinkamp, Trustee K & W Electric, Inc.	Repairs	\$4,015

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Saxton's Greenhouse does not appear to represent conflict of interest since it is not more than \$1,500. The transaction with K & W Electric, Inc. may represent a conflict of interest.

Response: The Emmetsburg Municipal Utilities' has investigated the questioned transactions and talked to the individuals who initiated them. employees have been reminded of conflict of interest policies and where to find information regarding them. K & W Electric, Inc. is the only company in this area who is familiar with the water plant and well supply. We had some immediate needs for the repairs and had no idea who else to call or even if another company would have been able to act as quickly.

- 06-II-F Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

- 06-II-G Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

- 06-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

- 06-II-I Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.

- 06-II-J Financial Management of Grants - The financial management area was in general compliance, but the Iowa Department of Economic Development noted in their letter dated February 3, 2006 that one issue regarding disbursements of CDBG funds was violated. They noted that funds requested in the Request for Payment # 8 were received by the City on August 15, 2005, but were not disbursed until September 13, 2005. This violated the disbursement of funds within 10 days of receipt.

We found two more violations of the 10-day requirement in our review. One of the errors was after the Letter from the Department of Economic Development. None of the errors were material to the grant and none of the errors appeared to be intentional. The errors appeared to be clerical errors.